

Private Sector Actors in the UAE and their Role in the Process of Economic and Political Reform

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The vast influx of oil revenues since the 1970s has had a significant impact on the political and economic infrastructures of the United Arab Emirates (UAE) as it substantially altered the dynamics between the private sector and the state. Prior to the discovery of oil in the 1960s, the private sector had been the predominant contributor to GDP and had therefore exerted great influence on the politics of the Trucial States.¹ Trade, agriculture and the pearling industry were the three main components of the private sector. In contrast, the political authorities at that time played a minimal role, providing security and collecting tax revenue from businesses. However, with the discovery of oil and the formation of the Emirates in 1971, the oil revenues fundamentally transformed the structure of the state and its institutions and, as a consequence, the private sector became weak and greatly dependent on the government.

The aim of this paper is to examine the main actors in the private sector in the UAE and their role in the process of economic and political reform. In particular, it seeks to answer the following three questions: (1) how can the structure of the private sector in the UAE be explained? (2) who are the main actors in the private sector? and (3) what is their role in the economic and political reform process?

The paper argues that certain actors in the private sector, i.e., merchant elites and families, were able to link their wide-ranging economic, political and social interests with those of members of the ruling families, as well as with the general government interests. However, there were relatively few families capable of playing this role. Through their social relationships with the political elites, families such as Al-Muhairi, Al-Rumaithi, Al-Qubais, Al-Dahiri, Bin Hamoodah, Al-Suaidi, Al-Otaiba, Al-Mulla Bin Harib, Al-Tayar, Habtoor, Al-Fahim, Al-Futtaim and others managed to gain access to

¹ The 'Trucial States' (sometimes referred to as the 'Coast of Oman') was the name given to the group of shaikhdoms that were British protectorates from 1892 until December 1971 and the establishment of the United Arab Emirates. In this paper the term Trucial States will be used interchangeably with Coast of Oman and UAE.

oil revenues in the post-1971 period. By maintaining their historical relations with the political elites, they were therefore preferred by the ruling families.

In addition, the current merchant elites who emerged after 1971 were also able to build up their wealth due to their social relations with the ruling families and their ability to reach members of ruling families. This was done through social connections, or *wasta*, which has, I believe, been one of the main keys to their wealth. This is similar to the case of Qatar and Kuwait. In analyzing these two cases, Crystal argues that, “in time this arrangement was institutionalized through protective nationality and commercial laws which restricted property and business ownership rights to nationals. The primary beneficiaries were the old trading families.”²

However, the interrelations between merchant families (and elites) and ruling families did not result in any demands for economic or political change. In fact, merchants were more concerned with their own economic interests, and their limited political interests were focused solely on the condition that ruling families should use their ‘political power’ to stop foreign merchants from competing in the private sector. In return, members of the ruling families would be involved by the merchant families in the running and managing of their businesses.

The paper will focus on some of the major Emirati families, mainly from the three main emirates – Abu Dhabi, Dubai and Sharjah – and will therefore have three main sections that will allude to the argument above. First, it will discuss historical relationships of the merchant and ruling elites, focusing on specific families from each emirate. Secondly, it will look at the structure of the private sector to understand the positions of merchant families (and elites) and ruling families within this sector. Thirdly it will investigate some of the main merchant families in the private sector from each emirate, as well as analyse the extent to which those actors have or have not had any roles in the process of economic and political reform in the UAE.

The current structure of the private sector in the UAE is a result of a historical interaction between local merchant elites, foreign merchants, political authorities, and the increase in oil prices during the early 1970s that led to the dominance of the state over the private sector. While local merchant elites in the pre-oil era had been major actors in the private sector, foreign merchants had also contributed to the survival of the private sector before 1971.

² Jill Crystal, *Oil and Politics in the Gulf: rulers and merchants in Kuwait and Qatar* (Cambridge and New York: Cambridge University Press, 1990), p. 8.

In the past thirty-eight or so years, the UAE has transformed its economy from being dependent on a single commodity to one that is highly global and diversified. This transformation has resulted from the engagement of different major merchants in the diversification process in this sector. Following the decline in oil revenues during the 1980s, the UAE embarked on a process of economic diversification and liberalization which increased foreign direct investment. Over this period, the share of the private sector in the UAE's GDP increased significantly from around 15 percent during the 1970s to over 40 percent in 2009 in nominal terms. Led by Abu Dhabi and Dubai, the UAE's non-oil sector contributed around 64 percent of total GDP in 2007,³ and even though oil prices dropped in November 2008 to \$50 pb (per barrel), the UAE continued to sustained its economic growth. However, despite the economic changes, the dynamics of the political structure of the UAE have remained authoritarian. This emphasises how economic development and liberalization have enhanced the survival of the rentier structure.

The changes in the economic structure of the UAE are a result of dynamic relationships in the private sector and among its main actors, but the changes in the political and economic structures have not resulted in any genuine reform. Therefore, in this context, the linkage between economic development and political participation represented by modernization theory appears weak; hence the regime continues to retain a hold on the political structure, and rents from oil accrue to the ruling families. As a result, the characteristics of the UAE as a rentier state continue to shape its current government. In return for loyalty and for not demanding political reform, the state offers its citizens enormous material wealth.

This rentierism, however, continues to enhance the legitimacy of the authorities. This is because the UAE government traditionally offered material largesse to those who supported the ruling families, including merchants' families. These loyal supporters received direct income, land⁴ and privileges. At present, as the population continues to increase, the state distributes wealth to the whole population by increasing public salaries and offering privileges to nationals rather than to expatriates for alleviating various security and social difficulties. Thus, the formula is simple: the more the state increases

³ UAE, *Yearbook 2009*, p. 58.

⁴ Commercial land was limited only to those who were well connected to, or in alliance with the ruling families. The recent merchant families who emerged during the early 1970s have received unlimited support from the government which has provided them with commercial land and many other privileges. Much of their wealth began through through such land, which was offered freely by the government. Others who were less well connected socially did not have the similar chance.

people's income, the greater is the legitimacy conferred on it by its people. Moreover, this legitimacy, gained through economic performance, has enabled the state to gain the confidence of its people.

Historical Relationships between Merchants and Ruling Families in the UAE

Well before the discovery of oil, the relationship between merchant elites and ruling families had been fairly strong, the former having exerted more power over the latter. This was due to the economic weight of merchants in the UAE before the discovery of oil. Their financial influence originated from their dominance in the pearling industry and trade in general. This gave them political power, for which ruling families sought to establish strong relations with them. However, as Abu-Baker argues, “the political power of this class [merchants] though limited, by no means challenged the authority of the ruler.”⁵ The merchants were local Arabs, Persians and from the Indian sub-continent. Here we focus on the prominent merchants who emerged in the pre-oil era and those who emerged in the early 1970s; the discussion will therefore cover two periods, first the pre-oil era, and second the post-1971 era and the establishment of the UAE.

The pre-oil era is considered as a cornerstone of the existing strong relationships between merchants and ruling families and has developed from being simply economically focused to a much more vibrant relation that encompasses all aspects of state-society relations. Before oil, the relationship between the rulers and the merchants had the character of a protection racket: merchants subsidized the rulers, and the rulers in turn protected the merchants' trade.⁶ While the merchants had little to do with members of the ruling families, due to the independence of economic institutions at that time, members of some of the ruling families, such as Al-Maktoum and Al-Qasimi, were silent business partners with certain merchants. J. E. Petersen noted that “ruling family members serve as silent partners in business enterprises or silent operators.”⁷ Some of the merchant families were already allied to ruling families, such as al-Otaiba, al-Zaabi,

⁵ Albadr S. S. Abu Baker, “Political Economy of State Formation: The United Arab Emirates in Comparative Perspective”, unpublished PhD thesis, University of Michigan, 1995, p. 99.

⁶ Michael Herb, *All in the Family: Absolutism, Revolution, and Democracy in the Middle Eastern Monarchies* (New York: State University of New York Press: 1999), p. 57.

⁷ Peterson, J.E., *Rulers, Merchants and Shaikhs in the Gulf Politics: The Function of Family Networks*, in Alanoud Alsharekh, *The Gulf Family: Kinship Policies and Modernity* (London: Saqi Books, 2007) , p. 24.

Al-Mansouri, and Al-Qubaisi (a close ally of Al Nahyan), which facilitated the economic interests of both families.

However, the ruling families had the power to tax these merchants, and taxes collected from pearling businesses constituted a major source of income for the rulers who relied to a great extent on taxation levied on merchants. This, according to Abu-Baker, was used as a financial subvention to the tribal elites who provided the political support that enabled the Shaikhs to control their communities, including the merchants and their divers.⁸ This is confirmed by Muhammad M. Abdullah who states that the pearl trade enabled merchants to occupy a central position in “internal politics”,⁹ and was due to the taxes paid to rulers. Indeed, some of these merchants continue to occupy important government positions at the present time. Abu-Baker also comments that, “the source of the merchants’ political power was their economic power, and over the decades it was routinized in social institutions that highly differentiated between participants in these economic activities.”¹⁰

In addition, merchant families who owned the means of production (mainly trading and fishing boats, as well as all related equipment) were the focus of members of ruling families. Most prominent merchants, e.g., Al-Otaiba, Al-Tajar, Mulla, Al-Habtoor, Al-Ghurari, Al-Qumzi, Al-Rumaithi, and others, were involved mainly in trade and pearling, which required only fishing boats. Such boats could be regarded as a means of production since they were the source for generating both income and food. Thus, the owners of boats (merchants) were the bourgeoisie of the Trucial States, and have remain so until the present. They succeeded in involving ruling family members and linking their interests with them, as well as developing strong relationships. Even after the decline of the pearling industry, some merchants remained closely connected with members of ruling families, such as al-Otaib, Al-Qubaisi and Al-Rumaithi, whereas others preferred to be isolated.

There were a number of factors that caused a decline in the role of merchants in paying taxes and in some internal politics. Ragaei El Mallakh identifies three main reasons: first, the Japanese had introduced a new ‘cultured’ pearl, which was much cheaper than those produced in the Trucial States: secondly, the worldwide depression

⁸ Abu-Baker, “Political Economy of State Formation...”, p. 102.

⁹ Muhammad Morsy Abdullah, *The United Arab Emirates: A Modern History* (London: Croom Helm, 1978), p. 104. Among the major merchant figures were Bin Khalaf al-Utaibah and Hamid bin Buti in Abu Dhabi; bin Dalmuk, Shaikh Mani bin Rashid, Salim bin Misabbah, bin Bayat and bin Badur in Dubai; and bin Darwish, Humaid bin Kamil, and Ali al-Mahmud in Sharjah

¹⁰ Abu Baker, “Political Economy of State Formation...”, p. 99.

during the 1930s resulted in the loss of luxury markets: and thirdly, demand for Trucial Coast pearls was reduced by the Second World War and the consequent loss of their large American and European markets.¹¹ All this upset the relationship between merchants and ruling families. Despite the lack of economic resources, some merchants remained closely related to the ruling families through intermarriage. However, some became involved in the Reform Movement during the 1930s. As Abu Baker explains, the political reform movements were centred in the most important commercial areas of the Gulf, i.e. Kuwait, Dubai and Bahrain. Interestingly, he notes,

... the reform movements occurred in 1938, i.e., after the decline of the pearling industry, as a result of the introduction of Japanese cultured and synthetic pearls, and the World Depression in 1929. The figures indicate that the revenue from pearls reached its rock bottom around the time of these Reform Movements. In other words, the movement of the merchants was not an indicator of their historical role, nor their penchant to political reform, nor their political prowess; and if it were all of these, it should have occurred between 1903 and 1913 when they were at their zenith.¹²

This indicates that the demand for political reform was not a necessity until the merchants had suffered a decline in their income.

At present, interestingly enough, although local merchants still play a dominant role in the private sector, they seem to put less pressure on the government for any political or economic reform, which suggests that there is a strong correlation between the economic wealth of the merchant class and their desire for political change. Real reform in the UAE will probably begin with the decline of its economy and the introduction of a tax system, since, as long as the state continues to provide welfare, the citizens have no incentive to make any participatory demands on their governments.

In contrast, the impact of the decline in the pearling industry on foreign merchants, particularly those of Persian origin, was limited, due to their experience in trade and to their well-established trading businesses in their home countries. Merchant families such as Al-Khoori, and Abul-Rahim Bin Ibrahim (known as Galadari) have remained strong, while Al-Fahim of Abu Dhabi, who immigrated in the late twentieth century from the southern part of Persia (Iran), is a well-known and successful Abu

¹¹ Ragaee El Mallakh, *The Economic Development of the United Arab Emirates* (London: Croom Helm, 1981), p. 20.

¹² Abu-Baker, "Political Economy of State Formation...", pp. 106-107.

Dhabian business family. Mohammed Al Fahim speaks of his own origins; “My own roots can be traced back to those who fled Persian oppression after the latter occupied the island of Sirri, near Abu Musa in the middle of the Persian Gulf, in 1887.”¹³

These merchants, and many others, were based mainly in Dubai where pearling was only one of their principal trading businesses. Indeed, many, such as Abul-Rahim Bin Ibrahim and his brother Abdul-Latif, were also successful gold merchants. Experience and a good education helped them to overcome the economic failures of the 1930s and 1940s. Many foreign merchant families, who later become Emirati citizens, became close allies with ruling families members and well-trusted members of the business elites. These families include the Galadari, Al-Khoori of Abu Dhabi and Al-Khoori of Dubai, Al-Fardan, Al-Ansari, etc. It should be noted here that material explaining the roles of Persian merchants and those originating from the Indian subcontinent in the UAE is extremely limited.

The post-1971 period witnessed a new era for the relationship between merchants and ruling families, and those who had maintained relations with the ruling families despite the decline of the pearling industry were favoured over others. Oil revenues had now begun to flow into the various Emirates, but the distribution and organization of this wealth created major concerns for the ruling families. They therefore sought to employ some of the merchant elites and those who had historically been allied to the ruling families began to occupy important positions in a variety of government departments (see Table 1) as the oil income flooded into the newly-established state (UAE). The ruling families of all seven of the emirates began distributing this wealth, but closely-related merchants, such as Al-Suwaidi, Al-Qubaisi, Al-Rumithi, Al-Otaiba, Al-Zaabi, etc., were more favoured than other lesser-known tribes. Most of the merchants have held a number of posts with different governmental and quasi-governmental entities.

Table 1: Some of the Social/Merchants elites and their current positions in 2009

Name	Position	Background
Abdul Aziz Abdullah Al Ghurair	Member in the Federal National Council	From merchant family
Amer Abdul Jalili Al Fahim	Member in the Federal National Council	From merchant family
Mohammed Abdullah Al	Minister of Cabinet Affairs, and Executive	From merchant family

¹³ Mohammed Al Fahim, *From Rags to Riches: A Story of Abu Dhabi* (London: I B Tauris for The London Center of Arab Studies: 1995), p. 31.

Gergawi	Chairman and CEO of Dubai Holding	
Sultan bin Nasser Al-Suwaidi	Governor of the UAE Central Bank	Social/merchant elites
Mohammed bin Ali Al-Abbar	Chairman, Emaar & director of Dubai Economic Department	Social/merchant elite
Eissa Al-Suwaidi	Executive Director, Abu Dhabi Investment Authority	Social/merchant elite
Ahmed Ali al-Sayegh	Vice Chairman, First Gulf Bank, & Chairman, Aldar Real Estate	Social/merchant elite
Essa Saleh Al-Gurg	Former UAE Ambassador to the UK and the Republic of Ireland, current Deputy Chairman of National Bank of Fujairah	Social/merchant elite
Sultan bin Saeed Al-Mansouri	Minister of Economy	Social/merchant elite
Obaid Humaid Al-Tayer	Minister of State for Financial Affairs	Social merchant elite
Maitha Salem Al-Shamsi	Minister of State	Social elite

Those who were closely integrated with, and socially related to the ruling families were the local Arab merchants, although this relationship has varied across the individual emirates. While merchants have been very prominent in Dubai, in Abu Dhabi and other northern emirates, they were closely linked with the ruling families only. As indicated in Table 1, there are more merchants from non-Arab backgrounds in Dubai than in Abu Dhabi, where they are mainly of Persian background.

Table 2 indicates the GDP development of each Emirate since 1975 to 2007, but there is no available breakdown of how much the private sector of each emirate has contributed to its GDP. Availability of such statistics would indicate how much the top merchants had contributed to the development of their wealth, as well as to the overall wealth of the emirate to which they belong.

Table 2: Individual emirates' GDP 1975 - 2007 (Dirham Million)

Emirate Year	Abu Dhabi	Dubai	Sharjah	Ajman	Umm Al- Quwain	Ras Al- Khaimah	Al- Fujairah	Total
1975	28194	8167	2084	214	112	657	207	39635
1976	35471	11368	2761	480	154	982	292	51508
1980	77673	25610	4388	776	294	2090	639	111479
1985	59601	27401	9006	961	517	3227	1227	101990
1988	51215	22827	8467	1149	621	3197	1325	88801
1989	61094	25878	8928	1276	699	3171	1503	102549
1990	79629	28978	94981	1352	742	3452	1632	210766
1991	79539	28718	9390	1458	792	3577	1750	125224
1993	81177	32087	10987	1802	885	4133	2135	133206
1994	83246	36811	12688	2295	833	3979	2057	141909
1995	90593	41250	15076	2526	917	4313	2227	156902
1996	104538	44744	15754	2835	988	4650	2359	175868
1997	110302	47879	17627	3262	1066	4838	2576	187550
1998	96772	49876	17885	3545	1197	5218	2867	177360
1999	112194	55810	19866	3888	1306	5636	3097	201797
2000	159624	62335	21380	4006	1405	5940	3289	257979
2001	148439	66028	24054	4235	1439	6318	3728	254241
2002	150100	80494	25351	4467	1546	6783	4115	272856
2003	178840	97743	27014	4925	1630	7196	4404	321752
2004	218104	118428	30422	5213	1749	7834	4793	386543
2005	286545	140200	35718	5967	2033	9252	5797	485512
2006	360976	167301	42837	7500	2498	11124	6995	599231
2007	414928	199493	50538	9113	3017	12969	8109	698167

Source: Ministry of Panning, Annual Economic Report 1992, Economic and Social Development in UAE 1975 – 1980, Dubai Chamber of Commerce and Industry, Abu Dhabi Chamber of Commerce and Industry, Sharjah Chamber of Commerce and Industry, UAE Yearbook 1990-2008, The Economist Intelligence Unit Country Report 2000-2001 and 2009.

The Structure of the Private Sector

In order to understand the position of merchants and their relation to the government or the ruling families, the structure of the private sector should be clearly examined. However, defining the boundaries between what is private and what is public in the UAE is challenging, due to the lack of clarity as to state structure. This difficulty arises because of the complex patron-client relationships and the traditions of the ruling tribes. According to Elhussein,

in the case of tribally-based or traditional societies (though some of them experienced substantial modifications in modern times), whose government system is based on paternalistic patron-client relationships and traditions, the border lines between the private and public sectors are even more blurred because public ownership is not clearly distinct from rulers' private ownership.¹⁴

This complexity is due to the high degree of integration that exists between the political elites and the economy, since they dominate the means of production. As a result, there are no clear-cut boundaries defining government ownership in the private sector in the UAE. Furthermore, the private sector is arranged in a complex hierarchical system. Examination of the structure of the private sector in the UAE will underline the boundaries between the two sectors, and private sector inter/dependency on the state. The private sector in the UAE consist of three main components; stated-dominated companies, Small and Medium Enterprises (SMEs) and family businesses (or merchant families).¹⁵

With the discovery of oil the economic structure in the UAE changed dramatically from being one solely dominated by merchant families to being state-led. In the pre-oil era the Trucial States had played the role of protectorate and tax collector. The political elites did not intervene in the private sector precisely because of their limited capabilities. Interestingly enough, the merchants had more power and control

¹⁴ Ahmed Elhussein, "Manpower Nationalization in the United Arab Emirates: the Case of the Banking Sector", *Journal of Developing Societies*, Vol. 7, nos. 3&4, 1991, pp. 282-292.

¹⁵ Elaborated from Abdul-Aziz Sager's examination of the private sector in the Arab World, *The Private Sector in the Arab World – Road Map towards Reform*, (Arab Reform Initiative report), December 2007.

over the economy of their local political authorities. When oil revenues began to flow into the Emirates this signalled a change in the relationship between the private-public sectors with the former subordinated to the latter. The concept of 'neopatrimonialism' which described state-society relations in Third World countries evolved in the early 1970s. Christopher Clapham provided one of the most comprehensive definitions of this concept, defining neopatrimonialism as:

a form of organization in which relationships of a broadly patrimonial type pervade a political and administrative system which is formally constructed on rational-legal lines. Officials hold positions in bureaucratic organizations with powers which are formally defined, but exercise those powers, so far as they can, as a form not of public service but of private property.¹⁶

It can be argued that the structure of governance in the UAE is characterized by neopatrimonialism, a claim that would be supported by Michael Herb who describes how the ruler in neopatrimonial states organizes the regime around himself personally, by maintaining other members of the elite in a relationship of dependence on his personal grace and good favour. Outside the elite, society is kept politically inchoate.¹⁷

The current shape of the private sector structure in the UAE and the patron-client relationship is the result of a number of influencing factors which are mainly economic gains and non-economic objectives, such as national security and regime survival. Tribes that maintained strong relations with the ruling families have gained more economic interests than those who preferred isolation. Tribes whose members have helped ruling families to run their businesses today occupy important ministerial positions, such as Al-Mansuri family, where Sultan Bin Said Al-Mansuri is the minister of economy; and Al-Tayer who is a minister of state (see also Table 1 for more examples).

There is no federal or local emirate law that sets limits on state ownership and dominance in certain economic sectors. However, the degree of government ownership is not the same in every emirate; hence, federal law permits local Emirati rulers to draw up their own economic policies. An examination follows of the three main segments of the private sectors, including State-Dominated Companies; Small and Medium Enterprises (SMEs); and Family businesses in the UAE.

¹⁶ C. Clapham, *Third World Politics* (London: Croom Helm, 1985), p. 48.

¹⁷ Michael Herb, *All in the Family...*, p. 15.

1. ***State-dominated Companies (SDCs)***: signifying all those companies that have the characteristics of private companies but are dominated, organized, and managed by the state (the dominant shareholder). The SDCs are often grouped in holding companies, such as, for example, Dubai World. Private investors tend to own a limited number of shares and do not play any influential role in policy-making. The state has monopolized certain industries, such as oil, and other highly valuable manufactories, not because of the limited capacities and capabilities of the private sector, but because of national security concerns and regime survival.

State-dominated companies are run by the state or by the state wealth funds such as the Abu Dhabi Investment Authority (ADIA) or the Emirates Investment Authority (EIA), the Dubai Investment Group (DIG), the Ajman Investment and Development Authority (AIDA). With the state's intensive involvement in some large enterprises, this overlapping creates some confusion in distinguishing the state companies from the large private enterprises, including entities such as the Abu Dhabi National Oil Company (ADNOC), the Dubai Petroleum Company, the Abu Dhabi Media Company, the Sharjah Liquefied Gas Company (SHALCO), the Emirate Petroleum Products Company (EPPCO), the Dubai Aluminium Company (DUBAL), the Abu Dhabi Investment Authority, and the Abu Dhabi National Company (TAQA), etc. However, privatization appears to be shaping some of the state-dominated companies, which are evolving to become semi-private.

2. ***Small and Medium Enterprises (SMEs)***: The definition of SMEs varies greatly from country to another and from one economy to another. The European Commission defines SMEs as “those enterprises that employ fewer than 250 people and have annual sales not exceeding \$67 million and/or total assets not exceeding \$56 million.” Small enterprises are defined as those with fewer than 50 employees and with annual sales or total assets that do not exceed \$13 million.¹⁸ In contrast, the Asia Pacific Economic Cooperation (APEC) defines SMEs as enterprises with fewer than 100 people.

A medium sized enterprise is one that employs between 20 and 99 people, whereas a small firm employs between five and 19, and a micro firm employs fewer than five employees including self-employed managers. Although the latter definition

¹⁸ The European Commission, www.ec.europa.eu/enterprise/policies/sme , accessed May 2009.

seems to fit the UAE case, the former could also be applicable to many enterprises in the UAE.

SMEs are considered the cornerstone of Western economies and the main economic driving force. Not only do they contribute to the economy, but they are also a vital source of employment opportunities. In this respect, the UAE is no exception, and SMEs in the UAE have evolved since the 1970s to form a significant part of the UAE's economy, particularly in Dubai. In the UAE, SMEs constitute around 90 percent of the total number of companies, and around 7000 of them are located in the free zones.¹⁹ Furthermore, according to Abdul Baset Al-Janahi, chief executive of the Shaikh Mohammed Bin Rashid Establishment for Young Business Leaders, "SMEs contribute over 70 percent of the GDP."²⁰

A large proportion of the SMEs are family businesses. In the UAE the *kafeel* or sponsor plays a major role in the way SMEs are established. Many local sponsors are involved with some foreign investors but only for formal and legal registrations; they are not in fact the owner of these types of businesses.

3. *Family Businesses (merchant families/elites):* As noted, large numbers of SMEs are actually family businesses. In the UAE, family businesses are not as old as they are in some other Arab states. While some families emerged during the pearling era and from traditional economies, many appeared upon the discovery of oil. According to Abu-Baker they are, "the traditional merchant families that have consolidated their holdings in one group of companies with highly differentiated lines of business."²¹ Their economic activities range widely from agriculture and extractive industries to commercial, construction, services, import and export of goods, stocks, and finance. At present, they are a fundamental component of the UAE economy. The figures concerning their contribution to the economy are among the most protected in the country; hence neither private nor governmental statistics are available.

Family businesses constitute over 90 percent of the private companies in the UAE and over 50 percent of those in Dubai. Statistics on their contribution to the private sector are barely available; however, it is estimated that they contribute around 30 to 40 percent of the state's total GDP. When I submitted a special request to the Abu

¹⁹ George Fahim, *Al-Emarat Al-Youm*, 22 April 2009.

²⁰ Ibid.

²¹ Abu-Baker, "Political Economy of State Formation...", p. 239.

Dhabi Chamber of Commerce and Industry (ADCCI) for statistics concerning family corporations, I was told that these were highly sensitive cases and no access to their data was available. This reflects their close interrelation with the ruling families in all the emirates.

However, family businesses in the UAE do vary from one emirate to another according to their size, relation with ruling families, and their historical development and origins. They are ranked in importance according to their wealth and their relation to the ruling families. Table 3 shows some of the most important and leading family businesses in the UAE.

Table 3: Some of the leading Merchant Families in the UAE

Emirate	Families	Company	Year of Est.	Founder	Business Activities
Abu Dhabi	Al-Jaber	Aljaber Group	1970	Obaid Khaleefa Jaber Al Murri	Construction & engineering, industrial, trading, leasing services,
	Al-Otaiba	Al-Otaiba Group	1946	Mohamed Hareb Al-Otaiba	Oil, construction
	Al-Fahim	Al-Fahim Group	1958	Abdul Jalil Al-Fahim	Automotive, hospitality, industrial, properties and travel.
	Al-Khoory	Mohammed A. H. Y. Khoory	1930	Mohammed Abdullah H. Y. Khoory	Trading, Engineering, transport and recycling.
Dubai	Al Futtaim	Al-Futtaim Group	1930s	Majid Al-Futaim	Automotive, electronics, retail, services, insurance, industries and Real Estate.
	Al-Majid	Al-Majid Group	1950	Juma Al-Majid	Automotive, Contracting, Hotels, Investment, Properties, Trading and Travel.
	Al-Habtoor	Al-Habtoor Group	1970	Khalaf Al-Habtoor	Engineering, Hotels, Motors, Vehicle Leasing, Real Estate, Education, Publishing and Sports.
	Al-Ghurair	Al-Ghurair Group	1930s	Saif Al-Ghurair	Real Estate, Shopping malls, manufacturing and investments.
	Al-Nowais	Emirates Holdings	1979	Hussain Al-Nowais	Energy, food and industrial services.
	Al-Tayer	Al-Tayer Group	1979	Humain Obaid Al-Tayer	Automotive, engineering, jewellery, publishing, fashion and jewellery.
	Galadari	Galadari Brothers Group	1960	Abdel-Rahim Galadari	Automobiles, industrial trading, media, retail, engineering, hospitality, real estate, information technology and tourism.
Sharjah	Al-Fardan	Al-Fardan Group	1954	Ibrahim Al-Fardan	Exchange, jewellery and real estate.
R/al-Khaimah	Hamarain	Hamarain Centre	1992	Rashid Saif Hamarain	Contracting, Real estate, shopping malls.

Source: Dubai Chamber of Commerce and Industry, www.aljaaber.com, www.alotaibagroup.com, www.mahykhoory.com, www.alfahim.com, www.al-futtaim.ae, www.majedalfuttaim.com; *The International Who's Who of the Arab World* (Edinburgh and London: Morrison & Gibb Ltd, 1978); Abu Dhabi Chamber of Commerce and Industry; Sharjah Chamber of Commerce and Industry; Abu Baker, Albadar S. S., *Political Economy of State Formation: The United Arab Emirates in Comparative Perspective* (PhD thesis, University of Michigan, 1995).

Most of these families began with construction, trade and some light manufacturing, but they are at present highly diversified in their business activities. Some of their business activities are linked with the government or members of the ruling families. Since the early 1970s, the leading merchants in most of the emirates have become strongly embedded within the politics of the state, including, for instance, Al Fahim, Juma Al Majid, Al Habtoor Al Tayer, and Al Dhahiri of Abu Dhabi. Because of their wealth, and, to some extent, their social relations with the ruling families, they have succeeded in positioning themselves parallel to the state. Therefore, many merchant families have been assisted by the state, while those with stronger ties to “leading families” could easily obtain commercial lands and low interest loans. Other families have won government “construction” contracts and/or benefited from many of the subsidies or free-interest loans offered by the state.

Field demonstrates how in all the oil states, when the rulers have wanted to make a particular individual really rich they have given him land – with result that in the last thirty years land has become by far the most important source of personal wealth in Arabian society.²² Rulers grant land to their closely-related connections, to ministers and to anyone else they wish to favour. I have personally seen a number of families developing from small family businesses to large enterprises, including Al Jaber, Bin Salem, Bin Hamouda and many others. One cannot deny the politics of ‘*wasta*’ (connections) in the Arab states that have helped many leading merchants, particularly in the Gulf. The degree of influence of your ‘*wasta*’ (connection) determines your political, economic and social status in the state. Those who received free lands have, since the 1970s, established strong companies. In other words, the closer you are to the ruling families, the better off you are.

A large number of family businesses across the emirates accumulated their wealth from their total dependence on the government, their relations with ruling families, their historical relation with political elites, and their trading history during the pearling era. Those that evolved before the 1970s, such as Al-Futtaim, Al-Otaiba and Kanoo and Al-Fahim, who are among the most prominent and respected names in the country, attribute their successes and their role in the state to what Fareed Mohamedi

²² Michael Field, *The Merchants: the Big Business Families of Arabia*, (London: John Murray Publishers, 1984), p. 99.

describes as “a historic compromise made between the royal families and the pre-oil merchant classes, whose original wealth came from pearling and entrepot/caravan trade: the merchants would forego political participation in exchange for wealth beyond their wildest imagination.”²³ Andrew C. Hess, too, emphasises how the private sector, like the rest of Gulf society, is based on kinship relations. Indeed, the great private-sector firms are still largely run by extended families.”²⁴

The leading merchant families who emerged in the pre- and post-1970s have strong business partnerships with ruling families. They either run businesses for certain members of the ruling families, or the latter have a 70 percent or more share in a joint partnership. However, there are no statistics to explain how much each of the merchant or ruling family members contributes to their joint partnerships. According to Abu Baker, “business partnerships among the commercial bourgeoisie are extensive and in some cases cut across emirates.”²⁵ The interrelationship between merchant and ruling family goes back to the pre-oil era; however, there are few who emerged later, in the post-oil boom. While merchants provided financial support to the political elite before the 1960s, there is at present a political and economic interlocking between them.

If one looks at most of the ministerial positions and other government positions, one realises that leading merchant families are ranked second after members of the ruling families. Most of the 20 (out of 40) appointed members of the Federal National Council (FNC) are from among the country’s leading merchants. Amongst those are; Al Ghurair, Al Dhahiri, Al Hai, Al-Qubaisi, Al Fahim, Al Mansouri, Al Khaili, Al Muri, Al Suwaidi, Al Sha’afar, Al Madfa and Al Zaabi. In addition, Al Tayer, a leading merchant, is a Minister of State and Finance, and a member of the UAE Cabinet, while Anwar Gergash, is a Minister of State for Federal National Council Affairs, along with many others. There is also strong economic cooperation between merchant families themselves, as in the case of the Emirates Bank, where the Board of Directors includes the following families; Al Tayer, Al Gurg, Al Fardan, Lootah, Al Sayegh, Al Futtaim and Al Mulla.

Most directorial boards of leading public, semi-private and private companies include members of ruling families along with leading merchants. Abu Baker shows

²³ Fareed Mohamedi, “Political Economy: State and Bourgeoisie in the Persian Gulf”, *Middle East Report*, No. 179 (Nov-Dec. 1992). pp. 35-37.

²⁴ Andrew C. Hess, “Peace and Political Reform in the Gulf: The Private Sector”, *Journal of International Affairs*, Vol. 49, No. 1, (1995), pp. 103-122.

²⁵ Abu Baker, “Political Economy of State Formation...”, p. 247.

how these families, in turn, share membership with other merchant families or state elites on the boards of directors of one or other of these companies.²⁶ He further explains how a wide range of overlapping and interlocking might be envisaged between and among these institutions and families, through their boards of directors, thus demonstrating the relative cohesiveness of the commercial bourgeoisie in the UAE.²⁷ For example, the Abu Dhabi Commercial Bank includes both members from the Al Nahyan ruling family and merchants such as Al Khouri, Al Mazrouei and Al Fahim. Furthermore, the Board of Directors of Etihad Airways includes Sheikh Hamed bin Zayed Al Nahyan, Sheikh Khaled Bin Zayed, Ahmed Ali al Sayegh, Mubarak Al Muhairy, Hamad Abdullah Al Shamsi and Khalifa Sultan al Suwaidi. There are many other instances, such as banks, telecommunications companies, property and insurance firms, etc., where the political and economic interests between the ruling families and merchant elites meet.

The role of “family businesses” in the private sector has been impressive, albeit not in all sectors. They have played a significant role in developing the private sector and the economy of the state from a local to a global competitive environment. In particular, merchants from Abu Dhabi and Dubai have brought major transformations to the economies of their respective emirates. The following section will examine some of the merchant elite families in the UAE and how they have emerged both as an important business elite in the private sector and as political elites along with ruling families.

Merchant Elites

Looking at the social composition of many government departments, it is clear that three main segments of society are dominant; merchant elite, social elite, and ruling families. However, the leading merchants of Abu Dhabi, Dubai and Sharjah remain in the ascendant in the number of government positions they hold. Indeed, many of the social elite are merchants at the same time, such as Ganim bin Hamdan and Thani bin Abdullah, Faraj Bin Hamoodah, Mohammed Ahmed Al-Otaibah, etc. Even though the UAE consists of seven emirates, this section will look only at the three important

²⁶ Ibid. pp. 249-251.

²⁷ Ibid.

emirates – Abu Dhabi, Dubai and Sharjah – in order to examine some of the most significant merchant families from each.

The leading merchant families in these three emirates appear to control a large portion of the UAE economy overall. This is due not only to their historic economic role in the pre-1971 era, but to the oil boom which made a substantial contribution to their emergence as the bourgeoisie of the UAE.

In Abu Dhabi, Al-Otaiba and Al-Fahim are among the most significant merchant elites (families).

Al-Fahim family is one of the most successful business families in Abu-Dhabi. Their history in business goes back to 1958, when Abdul Jaleel Al-Fahim established Al-Fahim Group. The group began as a small company trading vehicle parts, and was a family business led by eight brothers; Mohammed, Abdullah, Saeed, Ahmed, Taha, Eissa, Aamer and Rashed. Al-Fahim, who had migrated from Iran, had trading experience and was a well-educated merchant. After arriving in Abu Dhabi, he became a well-known merchant, in 1905 marrying a woman from the Al Hawamil tribe (one of the Bani Yas tribes of Abu Dhabi).²⁸ His marriage was attended by the ruler of Abu Dhabi, Sheikh Zayed Bin Khalifa.²⁹ Thus, from his arrival Al-Fahim began to integrate strongly with the ruling family of Abu Dhabi, becoming an influential and well-renowned family. Today, some family members occupy high government positions, like Amer Abdul Jalil Al-Fahim who is a member of the Federal National Council.

Al-Fahim Group now has 13 companies that include such activities as automotive, travel and tourism, real estate, hospitality, industrial development, and oil and gas. With their offices in Abu Dhabi, Dubai and Sharjah employing over 1,300 staff, their revenues are estimated at around \$US1 billion annually. Furthermore, in 2005 total assets exceeded \$US690 million on revenues of \$US459 million and its own charitable foundation had an endowment of more than \$US100 million.³⁰ This is attributed to their advantageous connections and relations with ruling families. As noted, merchant families in the UAE tend to avoid publishing any detailed statistics of their revenues; thus, there are few statistics available for Al-Fahim family. However, as an insider, one can realize the dominance of Al Fahim in certain key sectors such as real estate, automotive and retailing.

²⁸ Al-Fahim, *From Rags to Riches...*, p. 50.

²⁹ Ibid.

³⁰ J. A. Davis, E. L. Pitts, & K. Cormier, "Challenges Facing Family Companies in the Gulf Region", *Family Business Review*, Vol. 13, no. 3, 2000, pp. 217-237.

This particular family has been the main investor in many major projects in the UAE. Amongst the most notable are Dubai Pearl, estimated to cost up to \$US3 billion and due to be completed by 2011. Al Fahim owns the Paris Gallery, Emirates Motor Company (EMC), Western Motors Company, Golden Tulip Dalma Plaza (Hotel Apartments), Hilton Corniche Hotel Apartments and Garden View Hotel Apartments. Al-Fahim also owns Marjan Industrial Development; established in 1978, it is one of the leading local establishments in the UAE for supplying engineering products and technical services related to oil, gas and petrochemicals, as well as water and power utilities.³¹

In contrast to Al Fahim is Al Otaiba family. Al Otaiba or Otibat (plural) is a well-rooted indigenous Arab family from Abu Dhabi that has lived in this area for many centuries. This particular family is the most important of the clans related to Al-Nahyan, Abu Dhabi's ruling family, and while this has made it a well-respected family, parallel to the ruling family, the relationship has, however, made Al Nahyan favour Al Otaiba and give it more privileges than others. For example, Al-Otaiba Enterprises has succeeded in winning many project contracts with government and semi-government departments (mainly infrastructural, networking, security systems, and software). Amongst its main clients are: Abu Dhabi International Airport, Emirates Palace, the Ministry of Culture, the General Headquarters of the Armed Forces, Cultural Foundation, Dolphin Energy, Etisalat, Abu Dhabi Educational Council, Paris Sorbonne University (Abu Dhabi), the Ministry of Finance and Industry, and so on.

Mahdi Al Tajir is one the most prominent merchants in the UAE, particularly in the emirate of Dubai. Bahraini-born and educated, Mahdi Al Tajir was sent from Bahrain to Dubai as a customs clerk before the oil boom, where he subsequently established good relations with its residents. James Paul points out that Al Tajir became the main confidant of Shaikh Rashid, having negotiated Dubai's oil concessions and acquired a reputation as an indispensable middleman.³² His relation with the Ruler of Dubai continued to develop and strengthen, and he was eventually appointed by the Ruler as UAE ambassador to the UK, where he continues to live. It is clear that his wealth was very much linked with Dubai's ruling family, and that without their support he would not have been as successful as now. Certainly there has been much

³¹ For more details on the specific industries see: www.alfahim.com .

³² James Paul, "The New Bourgeoisie of the Gulf", *Middle East Report*, No. 142, special issue on Wealth and Power in the Middle East (Sept-Oct 1986), pp. 18-22.

speculation about the origins of his wealth before the 1970s. He is among the wealthiest Arab businessmen and the richest in Scotland, according to a recent report by the British Broadcasting Cooperation (BBC).³³

Al Futtaim is a highly successful family business in Dubai. Al Futtaim was a prominent pearl merchant in the pre1971 era, having established his group as a small trading enterprise in 1930. He has a relatively long trading history that has put him amongst the wealthiest merchant families. However, Al Futtaim's strong relations with Al Maktum since the early 1970s have undoubtedly helped in accumulating this wealth. According to Al Futtaim's, the group collectively operates over 40 companies bearing the Al Futtaim name. It dominates many market segments in the UAE, and has expanded its sphere of operation to include Bahrain, Kuwait, Qatar, Oman and Egypt.³⁴ The group has over 6500 employees. This particular family business has contributed to Dubai's diversification strategies.

During the 1940s and 1950s Al Futtaim's relations with Al Maktum were fairly negative, and remained so until the 1960s. Al Futtaim himself clashed with Al Maktum in many aspects. In political terms, he engaged with members of Al Maktum family in the Dubai National Front,³⁵ and Davidson notes that in its early years "the main voices and the permanent 'backbone' of the Dubai National Front ... were the Al-Futtaim and Al-Ghurair families, supported by Sheikh Rashid bin Said Al-Maktum's...uncle, Sheikh Juma bin Maktum Al-Maktum..."³⁶ Although a member of Al-Futtaim (Hamad Al Futtaim) was exiled to Saudi Arabia, he later return to Dubai.

Al Futtaim was well educated, and this contributed to his demands for political and economic reform. He was amongst the merchants who asked for contribution towards a proper municipality. Abu Baker comments that

Shaikh Rashid in what would seem to be an attempt to cajole the merchants held weekly meetings which included members of the National Front. A member of the latter, Murshd al-Usaimi, declared that "there will be no opposition party in Dubai if Rashid agrees to a council of merchants to advise on and contribute towards a proper *baladiya* (municipality)." The Majlis al-Tujar, Merchants Council, when it was founded, was

³³ <http://news.bbc.co.uk/1/hi/scotland/8019073.stm> accessed 1 December 2009

³⁴ For more details see www.al-futtaim.ae under al-Futtaim group profile.

³⁵ The Dubai National Front is a loose organization established in 1953 by Arab merchants of Dubai (it excluded Iranian merchants).

³⁶ Christopher Davidson, *Dubai: The Vulnerability of Success* (London: Hurst & Company, 2008), p. 208.

packed by National Front supporters and excluded Persian merchants. Furthermore, Arab merchants schemed to control the Municipal Council which was founded in March 1957.³⁷

Shaikh Rashid came into power after his father's death and unlike his father, proved to be an important figure for the merchants. Abu Baker maintains that Rashid, being a merchant himself, institutionalized his relationship with the merchants through his *majlis* or court.³⁸ At that time, too, Al Futtaim, who was a member of the Municipal Council and the Chamber of Commerce, contributed along with other merchants including Galadari, Al-Naboodah, Al-Tayer, Al-Gindi, Farda, Al-Ghurair, and Bel Hasa, to Dubai's political *status quo*. As Abu Baker points out, Dubai's politics revolved around the ruler, his immediate family and sons, and the merchant elites that constituted the patrimonial regime.³⁹ There is no doubt that Al-Futtaim Group is now regarded as one of the largest and most successful groups in the UAE.

One of the prominent merchant families from Sharjah is Al-Midfa. This particular family has strong history in trade, as well as its political and cultural life in Sharjah. Al-Midfa, migrated from Oman in the eighteenth century, has established himself as a well respected pearl merchant and owner of large number of ships that used by traders to travel to Arab countries and India. Amongst the most prominent members of this family are: Abul-Rahman bin Hasan Al-Midfa, who is a merchant; Ibrahim Mohammed Al-Midfa (who started the first newspaper *Oman* in the Gulf in 1927) and he was an advisor to the ruling Al-Qassimi family at that time; and Hassan Abdullah Al-Midfa. The well educated Al-Midfa family have contributed to the economic and political reform in Sharjah. This is through their contribution to the civil society, such as establishment of several cultural institutions, i.e. Islamic Forum.

At present, members of this family occupy different position both at local and federal levels. Amongst those members are: Mohammed Ahmed Al-Midfa, the chairman of the Sharjah Chamber and Industry; Hamad Abul Rahman Al-Midfa, the minister of Health until May 2009; Saif Mohammed Al-Midfa, chairman of Sharjah Expo Centre. This family is well connected and integrated with the ruling families in the UAE in general and Sharjah in particular. However, although al-Midfa family has long history in trade since 1930s there is little written on this particular family in terms

³⁷ Abu Baker, "Political Economy of State Formation...", p. 139.

³⁸ Ibid., p. 140.

³⁹ Ibid., p. 141.

of their business in the UAE at the present time. Amongst one of the prominent members of Al-Midfa family is the Chairman of Gulf International Trading Group Khalid bin Mohammad bin Ibrahim Al-Midfa is a grandson of Ibrahim Mohammed Al-Midfa, invest greatly in building materials and oil. However, no statistics available on how much this family own at present.

The merchant families discussed above, and many others such as Al-Tayer, Al-Dhairi, Al-Ketbi, Al-Jaber, Al-Mahmoud, Al-Darmaki, Al-Suwaidi and Al-Mansouri, dominated many parts of the private sector and their classification as the “merchant elites or bourgeoisie” was determined by certain factors that contributed to their emergence. In this respect there were two main factors: first, their families, well-connected with the political elites, contributed to their access to commercial land. Land ownership is a vital source of wealth, and most of the residential and commercial buildings in the UAE, with some exceptions in the case of Dubai, are owned by merchant families, or owed by ruling families. Secondly, the social and historical relations between certain merchants and ruling families contributed to a large extent to their status; thus many merchant families who won construction contracts from the government during the 1970s have become today’s “merchant elite”. Many of those who were not involved in trade before the 1970s accumulated their wealth through the construction sector. For example, Al-Jaber Group, owned by Obaid Khalifa Jaber Almurri, began its business in 1970 as a small construction company. Currently, Al-Jaber has over 50,000 employees and a total asset base whose value exceeds AED10 billion (around \$US3.7 billion).⁴⁰

Today many of the old merchant families have cemented themselves into the private sector through joint ventures or business partnerships with different members of ruling families across the emirates. It is difficult to estimate how much each member of a ruling family or merchant elite contributes to the joint business, since the ruling families of the seven emirates, with the exception of Dubai, tend to avoid showing their engagement in any economic activities. However, by looking at most boards of directors, it is clear that top merchants, members of the social elite and individuals from the ruling families dominate the directorial boards.

For example, the board of directors of First Gulf Bank includes the following : H.H. Shaikh Hazza Bin Zayed Al Nahyan, H. H. Shaikh Tahnoon bin Zayed Al Nahyan,

⁴⁰ For more detail see www.aljaber.ae

Khadem Abdulla Al Qubaisi, Khaldoon Khalifa Al-Mubarak, Ahmed Darwish Dagher Al Marar and Ahmed Ali Al Sayegh. In this, there are two members of Abu Dhabi's ruling family, two from the social elite, and two from merchant families. Most of the newly-established semi-governmental companies are run by both merchants and ruling families.

Furthermore, the Mubadala Development Company is a Public Joint Stock Company headquartered in Abu Dhabi. The company appears to be owned by Shaikh Mohammed bin Zayed Al Nahyan, the Crown Prince of Abu Dhabi. The board of directors includes the following: Mohammed Ahmed Al Bowardi, Khaldoon Khalifa Al Mubarak, Nasser Ahmed Khalifa Al Suwaidi, Mohamed Saif Al Mazrouei, Ahmed Ali Al Sayegh and Hamad Al Hurr Al Suwaidi. Quite apart from Abu Dhabi's Crown Prince, the social composition of this company's directorial board consists of top social elites. Similarly, other top companies in the UAE remain dominated by the three main segments of the society, including all the Emirati ruling families.

Concluding Remarks

The interrelation between merchant class and ruling family members has evolved through years to include all political, economic and social aspects. Although the rulers of the Trucial States were politically powerful but economically weak, they were able, through various channels, to establish strong relations with the merchants, both before and after the discovery of oil. At present, it is clear that to a great extent, it is *wasta* (connections) that determine the financial status and class of many members the society. However, due to the relative increase in population, the ruling families have maintained their relations only with those social elites and merchant families that are already well-established.

Furthermore, the merchant elites have succeeded in linking their interests with ruling family members across all the emirates. The ruling families of Abu Dhabi, Dubai and Sharjah preferred educated merchants and social elites as their business partners and political advisers. However, after the decline of the pearl industry, those merchants who came from educated and highly-experienced backgrounds became involved with demands for political and economic reform, as in the case of Dubai with the Reform Movement of 1938 where a member of Al-Maktoum was strongly backed by the

merchant elites. In Abu Dhabi, rulers joined forces with merchants from Persian backgrounds, such as Al-Fahim, as well as with experienced Arab merchants such as Al-Qubaisat and Al-Otaibat.

To conclude, the relationships between merchant elites, social elites and ruling families of the UAE were based on the patrimonial regime, and there was a political-economic exchange between the political elites and merchant elites. Although merchant families dominate a large segment of the private sector, they also occupy high government positions, and these connections have cemented their position (as merchants) in the private sector by allowing them access to various sources of revenues, e.g., land ownership, preventing ownership by foreign merchants, and competition in the private sector.